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COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D. T. E. 00-68

JOINT PETITION OF
WESTERN MASSACHUSETTS ELECTRIC COMPANY
NEW ENGLAND POWER COMPANY
AND
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

FOR APPROVAL OF ASSET DIVESTITURE

DIRECT TESTIMONY OF TERRY L. SCHWENNESEN

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ON BEHALF OF
NEW ENGLAND POWER COMPANY

SEPTEMBER 8, 2000

I. Introduction and Qualifications

Q. Please state your full name and business address.

A. Terry L. Schwennesen, 25 Research Drive, Westborough,
Massachusetts 01582.

Q. Please state your position.

A. I am Vice President and Director of Generation Investments for New England Power Company ("NEP"). In my present capacity, I am responsible for the divestiture of NEP's remaining minority interests in three operating nuclear generating plants and one fossil unit, including NEP's 16.21% ownership share of Millstone Unit 3. I am also responsible for the safe decommissioning of NEP's minority interests in three retired nuclear generating plants. In addition, I have responsibility over NEP's remaining wholesale power supply obligations.

Q. Please describe your educational background and training.

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A. I hold a Bachelor of Arts degree, with honors, in Business Administration from Adrian College of Adrian, Michigan. In addition, I hold a Juris Doctor degree, with honors, from Suffolk University Law School of Boston, Massachusetts.

Q. What is your professional background?

A. Prior to being appointed as Vice President of Generation Investments on June 1, 2000, I was Assistant General Counsel for Massachusetts Electric Company and Senior Counsel for the National Grid USA Service Company, Inc. While in the Legal Department, I was primarily responsible for regulatory matters affecting Massachusetts Electric Company. Prior to joining the Legal Department, I held a variety of positions in the Rate department of the New England Electric System ("NEES") companies, most recently culminating in the position of Director of Rates. As Director of Rates, I had responsibility over all rate matters affecting the NEES companies before the Federal Energy Regulatory Commission ("FERC"), the New Hampshire Public Utilities Commission, the Rhode Island Public Utilities Commission and the Massachusetts Department of Telecommunications and Energy, formerly known as the Department of Public Utilities (the "Department"). Prior to joining the NEES companies in 1985, I was employed as a rate analyst in the Rate department of Consumers Power Company which is headquartered in Jackson, Michigan.

Q. Have you previously testified before the Department?

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A. Yes. I have testified before the Department as well as before FERC, the Rhode Island Public Utilities Commission and the New Hampshire Public Utilities Commission.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony addresses the terms of the sale as they apply specifically to NEP. First, under the terms of restructuring settlements approved by the Department, NEP agreed that it would endeavor to sell its share of Millstone Unit 3 and all other nuclear units in which NEP has a minority interest on terms that will assign ongoing operating costs and responsibility to a nonaffiliated third party. The proposed sale of the Millstone Station would bring NEP one step closer to achieving that goal. Second, my testimony describes the terms of settlement agreements under which Northeast Utilities and certain of its subsidiaries (collectively referred to as "NU") agreed to include NEP's and Montaup Electric Company's ("Montaup's") share of Millstone Unit 3 in an auction that was to be conducted by the Connecticut Department of Public Utility Control (the "DPUC"). Finally, my testimony describes the benefits to customers of entering into this sale transaction.

II. Statutory and Regulatory Standards

Q. Please describe the legislative and regulatory framework under which NEP is divesting its minority interest in the

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Millstone Unit 3 nuclear plant.

A. On July 14, 1997, the Department approved a Restructuring Settlement Agreement (the "Restructuring Settlement"), including the provisions of a wholesale rate stipulation and agreement (the "Wholesale Settlement") submitted by Massachusetts Electric Company and Nantucket Electric Company. Massachusetts Electric Company and Nantucket Electric Company, D.P.U./D.T.E. 96-25-A (1997). On November 25, 1997, the Legislature enacted Chapter 164 of the Acts of 1997 (Massachusetts Electric Utility Restructuring Act) (the "Act"). Also on November 25, 1997, the FERC approved, subject to a compliance filing, the Wholesale Settlement. See New England Power Company, Docket No. ER97-678-000. On December 23, 1997, the Department found that the Restructuring Settlement approved by the Department on July 14, 1997, substantially complied with or was consistent with the Act. Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 96-25-B (1997).

In D.T.E. 96-25-B, the Department found that the Restructuring Settlement was consistent with the Act's two key features: to implement a restructured electric generation market, including retail access by March 1, 1998, and to provide prescribed rate reductions. *Id.* at 12. The Department stated, "[b]ecause NEP's non-nuclear generating facilities will be sold to an unaffiliated third party after a competitive auction or sale, and the proceeds from the sale will be applied to reduce the amount of the Companies' transition costs, the Restructuring

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Settlement is consistent with the divestiture requirements of the Act, and mitigation of such transition costs." Id.

Q. What does the Restructuring Settlement specifically say regarding NEP's divestiture of its interests in nuclear facilities?

A. Section V.D.2. of the Restructuring Settlement states:

As part of the divestiture, NEP will endeavor to sell, lease, assign, or otherwise dispose of its minority shares of nuclear units or entitlements on terms that will assign ongoing operating costs and responsibility to a nonaffiliated third party but may require NEP to retain the obligation for post-shutdown, decommissioning and site restoration for these units or entitlements. NEP shall recover these post-shutdown, decommissioning, and site restoration costs from Mass. Electric through the Contract Termination Charge or the Residual Value Credit, and shall credit any net positive value or recover any payments associated with such transaction in the reconciliation account of the Contract Termination Charge or the Residual Value Credit.

Section 6.1.2 of the Wholesale Settlement contains identical language.

Q. Does NEP's disposal of its minority interest in the Millstone Unit 3 nuclear facility comply with the Settlement?

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A. Yes. By disposing of NEP's minority shares of Millstone, NEP has not only complied with the Settlement language to "endeavor to sell, lease, assign or otherwise dispose of its minority shares of nuclear units ... on terms that will assign ongoing operating costs and responsibility to a nonaffiliated third party," but actually goes further and assigns post-shutdown, decommissioning and site restoration obligations to a nonaffiliated third party.

Q. How did NEP dispose of its shares in Millstone?

A. In November 1999, NEP, NU and Montaup (hereinafter NEP and Montaup are collectively referred to as NEP) entered into global settlements addressing litigation and arbitration filed by NEP against NU and its subsidiaries for damages related to an earlier shutdown of Millstone Unit 3 (the "Millstone Settlement"). As part of this Millstone Settlement, NU agreed to include NEP's minority interest in Millstone Unit 3 in the auction to be conducted by the Connecticut DPUC for the Connecticut nuclear generation assets of The Connecticut Light and Power Company ("CL&P"), thereby assuring the NEP's minority interest would be included in the sale by CL&P of its controlling share. As part of that agreement, the proceeds NEP would receive and its decommissioning contribution were set at fixed amounts, regardless of what the actual proceeds or required decommissioning top-off from the auction might be. NU also agreed to indemnify NEP from any residual liabilities or

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costs resulting from the sale, including any requirement to purchase power from the unit, potentially at above market prices. On August 7, 2000, the terms of the Millstone Settlement were amended and clarified to reflect specific conditions associated with the sale.

Q. Will this divestiture benefit Mass. Electric and Nantucket Electric customers?

A. Yes, in a number of ways. First, the proceeds received from the Millstone Settlement will be used to reduce bills for customers of Massachusetts Electric Company and Nantucket Electric Company as part of the annual reconciliation of stranded cost charges under NEP's Contract Termination Charge ("CTC"). Under the terms of the Millstone Settlement, NEP (including Montaup) received total proceeds of \$31.5 million in November 1999. NEP has already passed its proceeds, net of litigation expenses, back to customers through the reconciliation of its CTC which became effective on December 31, 1999. Under the terms of the Millstone Settlement, NEP will receive an additional \$25 million, including Montaup's share, on the closing date of the sale of its share of Millstone Unit 3. This amount would similarly be credited to customers through the reconciliation account of NEP's and Montaup's CTC. Second, the sale eliminates any further decommissioning or post-shutdown costs above a preset level agreed to in the Millstone Settlement. This would eliminate significant going forward charges anticipated under the CTC. In addition, the Millstone

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Settlement provides several other benefits to customers. For example, NU will reimburse NEP for any capital expenditures above certain preset levels. NEP will also be reimbursed for fuel procurement expenditures which increase net nuclear fuel account balances above the balance as of the date of the Millstone Settlement. NU also has agreed to indemnify NEP from any residual liabilities or costs resulting from the sale. The Millstone Settlement also requires NU to pay NEP an additional \$1 million per month for every month that the closing of the sale takes place after April 1, 2001. All of these potential benefits will accrue to customers.

Q. When will FERC review NEP's CTC?

A. In accordance with the Retail and Wholesale Settlements, NEP's CTC is annually reconciled to reflect the actual costs and/or proceeds recovered by NEP as the result of any additional divestiture or the reconciliation of variable costs. Under the terms of the Wholesale Settlement, NEP's adjustments are subject to an alternative dispute resolution procedure. If the informal dispute resolution process does not produce a resolution, any party to the Wholesale Settlement may petition the FERC for appropriate relief.

Q. What is your conclusion regarding the disposal of NEP's interest in Millstone Unit 3?

A. The Department should find that the divestiture of NEP's

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interest in Millstone Unit 3 is in the public interest because:
(1) it carries out the terms of the Restructuring Settlement;
(2) it moves NEP one step closer to full divestiture; and (3) it will reduce stranded cost charges to customers.

Q. When do NEP and the other parties to the Agreement wish to close the sale of

Millstone?

A. The Agreement provides that the Petitioners' interests will not be included with

CL&P's sale of Millstone assets at the initial closing unless the Petitioners obtain

the regulatory approvals requested on a timely basis. Because the FERC process

may take up to 60 days and CL&P is targeting a closing of its interests on or about

April 1, 2001, the Petitioners request Department approval by the end of this

calendar year.

Q. Does this conclude your testimony?

A. Yes, it does.